

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 91-344-W/S - ORDER NO. 92-822 — c
SEPTEMBER 25, 1992

IN RE: Application of Rural Water, Inc. for) ORDER
Approval of a New Schedule of Water and) APPROVING
Sewer Rates and Charges for those) RATES AND
Customers located in its Certificated) CHARGES
Service Areas in South Carolina.)

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed by Rural Water, Inc. (Rural or the Company) on April 2, 1992, for an increase in its rates and charges for water and sewer provided to its customers in Greenwood and Abbeville Counties, South Carolina. The Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended, and 26 S.C. Regs. 103-821 (1976).

By letter dated April 17, 1992, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions. The Commission did not receive

any Petitions to Intervene. However, the Commission received a Letter of Protest from E. Cliff Carson, Jr., a resident of the area affected by the Company's Application.

On August 5, 1992, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room. Pursuant to S.C. Code Ann., §58-3-95 (Supp. 1992), a panel of three Commissioners, Commissioners Frazier, Butler, and Fuller, was designated to hear and rule on this matter. Commissioner Frazier presided. The Company was represented by John C. Lake, the Company President; F. David Butler, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of John C. Lake. The Commission Staff presented the testimony of Sharon G. Scott, Accountant, and William O. Richardson, Utilities Engineer Associate III. The Protestant, E. Cliff Carson, Jr. appeared and made a statement.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Rural provides water service to 316 residential customers and sewer service to 90 residential customers in Greenwood and Abbeville Counties, South Carolina. The Company has purchased Greenwood Shores, Harless Seymour, and Lakeland Village Water Systems and is asking that rates be approved by the

Commission for these subdivisions. The Company purchased Rosemont and Timberlake water systems in 1991 and is also requesting rate approval for these systems. Rural Water, Inc. is currently operating under rates approved for Warner Water Works, Inc. as approved by the Commission pursuant to the following:

<u>SUBDIVISION</u>	<u>ORDER NO.</u>	<u>DOCKET NO.</u>	<u>DATE</u>
Pinehurst (water)	83-584	83-212-W	9-14-83
McCombs (water)	83-584	83-212-W	9-14-83
Windmere (water)	83-584	83-212-W	9-14-83
Woodlawn (water)	86-147	85-565-W	2-7-86
Northfall Acres (sewer)	86-1148	86-278-S	11-7-86

2. With regard to Rural's present rates, the Company charges a flat fee of \$5.00 to Woodlawn, \$6.00 to Timberlake, \$6.50 to Rosemont, \$10.00 to McCombs, \$12.00 to Pinehurst, Greenwood Shores, Windmere, Harless Seymour, and Lakeland Village for water service. The Company also charges a flat rate of \$10.00 to Northfall Acres for sewer service.

3. The Company proposes to increase its flat rate to \$12.00 per month for water service for all subdivisions, and \$12.00 per month for sewer service for Northfall Acres. The Company also proposes to establish a water reconnect fee of \$50.00. These proposed charges would mean for water service an increase of 140% for Woodlawn, 100% for Timberlake, 84.62% for Rosemont, and 20% for McCombs. For sewer service the proposed rate would mean an increase of 20% for Northfall Acres.

4. Rural asserts its requested increase in rates and charges is necessary and justified because the Company service areas are filled to capacity, so revenue sources for increases in operations must come from the existing customer base. There is no potential in the near future for expansion, therefore, the ability to distribute cost by expanding the customer base does not currently exist. The Company states also in the testimony of John C. Lake that the average age of the individual systems is approximately 25 years old. Therefore, repairs, both major and minor, may be foreseen. Further, it appears likely that some engineering and analytical work will be required on the Northfall Acres sewer system, possibly resulting in process modifications. Also, as of January 1, 1992, Rural contracted with a local service company to maintain collection lines. Further, in consultation with the Department of Health and Environmental Control (DHEC), Rural has learned that additional testing and treatment of the Company's water systems will be likely in the future.

5. Rural proposes that the appropriate test year upon which to consider its requested increase is a 12-month period ending September 30, 1991.

6. Rural did not disagree with the accounting adjustments proposed by the Commission Staff.

7. Under the Company's presently approved rates, after pro forma and accounting adjustments, the Commission Staff determined that Rural's operating revenues, operating expenses, and net income for return for the Company's overall systems were \$47,118, \$45,401,

and \$1,717, respectively, for combined Company operations.

8. After making accounting and pro forma adjustments, the Commission Staff concluded that the Company's present operating margin is 3.64%, for the Company's combined operations. The Commission Staff determined that the Company's proposed increase in its rates and charges would increase its operating margin to 17.83%, for the Company's combined operations.

CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S. C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses and, consequently, the validity of the utility's requested rate increase. While the Commission considers the utility's proposed rate increase based upon occurrences within the test year, the Commission will consider adjustments for any known and measurable and out-of-test-year changes and expenses, revenues, and investments and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell v. The Public Service Commission, 270 S.C. 490, 244 S.E. 2d 278 (1978). In light of the fact that the Company proposes that the 12-month period ending September 30, 1991, as the appropriate test year, and Staff has audited the

Company's books for that test year, the Commission concludes that the 12-month period ending September 30, 1991 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the pro forma and accounting adjustments proposed by the Commission Staff are appropriate and are thereby adopted by the Commission. The Commission notes that the Company did not disagree with the Commission Staff's adjustments.

4. The Commission concludes that after pro forma and accounting adjustments, the Company test year operating revenues, operating expenses, and net income for return for its system were \$47,118, \$45,401, and \$1,717, respectively, for combined operations. These figures are reflected in Table A as follows:

TABLE A

NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$47,118
Operating Expenses	45,401
Net Operating Income	\$ 1,717
Customer Growth	-0-
Net Income for Return	<u>\$ 1,717</u>

5. That the Company's total original cost rate base, after accounting and pro forma adjustments, is \$23,206, both before and after the effect of the proposed increase, for combined operations.

6. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service

Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and ... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

7. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for

ratemaking purposes in the case of Patton, supra.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues, operating expenses, and customer growth for the test year, the Company's present operating margin for combined operations is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	\$47,118
Operating Expenses	45,401
Net Operating Income	\$ 1,717
Customer Growth	-0-
Total Income for Return	<u>\$ 1,717</u>
Operating Margin	<u>3.64%</u>

8. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the water and service, the quality of the water and sewer service, and the effect of the proposed rates upon the consumers. See Seabrook Island Property Owners Ass. v. S.C. Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

9. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need

objective, which takes the form of a fair return standard with the respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

10. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 14.45% operating margin for combined operations. In order to have a reasonable opportunity to earn a 14.45% operating margin, the Company will need to produce \$55,440 in total annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$55,440
Operating Expenses	<u>47,431</u>
Net Operating Income	\$ 8,009
Customer Growth	-0-
Total Income for Return	<u>\$ 8,009</u>
Operating Margin	<u>14.45%</u>

11. The Commission has carefully reviewed the financial status of the Company and its requested increase in its rates and

charges. The Commission has also considered the testimony of E. Cliff Carson, Jr., the Protestant in this case, who has been a resident of of the Timberlake Subdivision since 1960. Mr. Carson states that he has problems with the water pressure in his house and that it takes some two minutes to fill a eight ounce cup of water. Mr. Carson has stated that the proposed increase in the Timberlake Subdivision from \$6.00 to \$12.00 would be agreeable with him, if the Company would improve its system and bring it up-to-date. Subsequent to the hearing of August 5, 1992, the Commission dispatched the Commission Staff to the Timberlake Subdivision for pressure testing purposes on the Timberlake water system. Staff discovered that the pressure indeed was very low at Mr. Carson's residence, which indicates problems that need to be corrected in the Timberlake water system.

Overall, the Commission believes that the increase in water and sewer charges to a \$12.00 flat fee is just and reasonable in every subdivision as requested by the Company with the exception of the Timberlake Subdivision for the reasons stated above. This Commission believes that, with regard to that subdivision, no increase should be granted until improvements have been made and verified by Staff in both pressure and volume areas. The increase to the Timberlake subdivision residents is therefore denied at this time. The Staff is hereby ordered to advise the Commission when improvements are completed to the Timberlake Subdivision in pressure and volume, and the Commission will, at that time, reconsider the requested increase to a \$12.00 flat fee in that

subdivision. The Commission believes that the residents should be given a thirty (30) day notice prior to the institution of these rates and charges.

The proposed water reconnect fee of \$50 is just and reasonable, and is therefore approved for all subdivisions.

12. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.

13. It is ordered that if the approved schedule is not placed in effect within three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

14. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water and sewer utilities as adopted by this Commission.

15. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

DOCKET NO. 91-344-W/S- ORDER NO. 92-822
SEPTEMBER 25, 1992
APPENDIX A

APPENDIX A

RURAL WATER INC.
P. O. BOX 359
WARE SHOALS, SC 29592
803-456-2696

FILED PURSUANT TO DOCKET NO. 91-344-W/S - ORDER NO. 92-822
EFFECTIVE DATE: SEPTEMBER 25, 1992

WATER RATES

FLAT RATE	\$12.00 PER MONTH
(FOR ALL SUBDIVISIONS EXCEPT TIMBERLAKE SUBDIVISION)	
TIMBERLAKE SUBDIVISION	\$ 6.00 PER MONTH
WATER RECONNECT FEE	\$50.00

SEWER RATES

FLAT RATE	\$12.00 PER MONTH
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